Investing in the* [REDACTED] *involves a high degree of risk. You should carefully consider all the information set forth in this document and, in particular, the risks and uncertainties described below and all of the other information in this document, including the Accountants' Report contained in the Appendix I to this document, before making an investment in our* [REDACTED]*. Our business, financial conditions, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The trading price of our* [REDACTED] *may decline due to any of these risks and uncertainties, and you may lose all or part of your investment. This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

A significant portion of our revenue has been generated from our device recycling business, the gross margin of which is low and the amount of which depends on factors such as customer demand for particular type and condition of devices, which are out of our control.

Device recycling income accounted for 60.5%, 74.8%, 69.4%, 66.7% and 74.0%, respectively, of our revenue in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022. Gross profit margin for our device recycling income increased from 0.1% in 2019 to 6.5% in 2020, decreased to 3.1% in 2021 and further decreased to 2.0% for the six months ended June 30, 2022. Attributable to its trading nature, the gross margins of our device recycling business primarily reflect the difference between the prices at which we procured the de-commissioned devices and at which we subsequently sold them and are therefore lower compared to the gross margins of our subscription business, which are provision of services by nature.

Gross margins of our device recycling business depend on factors which are out of our control, such as customer demand for particular type and condition of devices, the price of IT devices in second-hand market, the demands for replacing de-commissioned devices and growing ESG awareness in China. In addition, we cannot guarantee that the technology adopted by de-commissioned IT devices and devices for subscription we purchase can always satisfy customers' evolving needs. During the Track Record Period, gross profit margins of major types of IT devices of our device recycling business varied significantly, primarily due to combination of various factors such as changes in device model and configuration as well as market demand and supply. A shift in our product mix due to the changes in market demand would affect our gross margins and in turn materially affect our results of operations and financial condition.

Our customers are primarily SMEs which are more susceptible to economic downturn, which would in turn affect our financial performance and future business growth.

Our customers are primarily SMEs from a variety of industries. SMEs, as our target group of customers, may be more sensitive and vulnerable to economic downturns due to their less competitive market position. Adverse economic or industry conditions in the markets in which our customers operate, in particular due to the recent global economic downturn or unforeseen circumstances, may lead to fluctuations in our SMEs customers' business development, financial performance and liquidity position. Although some market participants are more resilient than others to address the challenges due to business model innovation and competitive position, we cannot guarantee that all of our SMEs customers have those advantages.

In light of the implementation of mass entrepreneurship and innovation policies to support the development of SMEs by the government, the number of SMEs in China has grown at a faster pace over the past few years. However, if a number of our SMEs customers experience severe difficulties in their operations, or if they are unfortunately forced to close down as a result of economic downturn, our financial performance and future business growth could be materially and adversely affected.

Our business, growth and prospects are significantly affected by the usage and demand of DLM solutions and our targeted markets in China.

According to CIC, China's DLM market is still at an early stage in its development. Whether our potential customers accept DLM depends, to a large extent, on their level of awareness of our DLM solutions and the widespread, global use of DLM. We cannot assure you that the trend of adopting and utilizing DLM solutions by enterprises will continue to grow in the future. In addition, in terms of our targeted markets in China, the future growth of our business depends on (i) the penetration rate of the IT device subscription services market; (ii) level of acceptance of third-party IT technical subscription services providers for device maintenance; (iii) the degree of digitalization for device management among SMEs in China; and (iv) the demands for replacing de-commissioned devices and growing ESG awareness in China. As a result, we cannot predict with certainty the demand for our services or the future growth rate and size of the market for our DLM solutions. If there is a reduction in demand for such services caused by weakening economic conditions, decreases in corporate spending, technical challenges, data security or privacy concerns, governmental regulation, competing technologies and solutions or services or otherwise, our business, growth and prospects will be materially and adversely affected.

If we fail to maintain and grow our customer base or keep our customers engaged, our business growth will be negatively impacted.

To achieve the sustainable growth of our business, we must continuously dedicate ourselves to expanding our customer base, retaining existing customers and engaging in cross-selling to existing customers. This requires thorough understanding of our customers' evolving needs in their changing businesses and requires us to maintain a diversified service portfolio in keeping with the continued development of the market to keep our customers engaged. Our ability to achieve renewal of our contracts with existing customers and secure new sales depends on many factors, many of which are outside of our control, including, among others:

- customer satisfaction with our solutions and services;
- the competitiveness of our pricing and payment terms for our customers;
- our ability to tailor our DLM solutions and delivery in accordance with our customers' evolving demand;
- maintaining the appeal of our marketing tools;
- maintaining stable cooperation relationships with our business partners, including reaching the agreements on commercially reasonable terms;
- competition with the same or similar services and solutions offered by our competitors; and
- the effects of global economic conditions on spending levels of DLM generally.

If our existing customers do not continue to use or increase their use of our services, or if we are unable to attract new customers and to grow our customer base, our DLM business may not grow at a rate we anticipate or at all, which may, in turn, materially and adversely affect our business, results of operations, financial condition and prospects.

Changes and development in the regulatory environment over the industries in which our customers operate could adversely affect the business operations of our customers, thus negatively impacting our own results of operations and financial condition.

We provide DLM solutions primarily to customers engaged in e-commerce, software development, education and training, retails, manufacturing and outsourcing services in China. See "Business – Our Customers" for details. Our customers in these industries, especially SMEs, are vulnerable to changes in the regulatory environment over the industry in which they operate.

We cannot guarantee that the regulatory environment over the industries in which our customers operate will remain favorable in the future. The government could reduce the amount of tax or policy incentives available to enterprises in these industries, and may even introduce laws and regulations that hinder their further development and expansion. Such material and adverse changes could lead to significant revenue decline, or even the disappearance of certain industries. If any of the above happens to one or more of the industries in which our customers operate, our customers' business operations and expansions could be materially and adversely affected, leading to significant decline in their needs for DLM solutions. As a result, our results of operations and financial condition could in turn be materially and adversely affected.

We are exposed to credit risk associated with our customers and the recoverability of our trade and lease receivables and IT devices are subject to uncertainties.

We face credit risks attributable to our trade and lease receivables due from our customers. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our trade and lease receivables were approximately RMB47.4 million, RMB37.1 million, RMB53.4 million and RMB58.3 million, respectively. The Group performs impairment assessment under ECL model on trade and lease receivables with credit-impaired individually and collectively using provision matrix for those remaining trade and lease receivables based on shared credit risk characteristics by reference to the aging of outstanding balances. Our provision for impairment losses accounted 5.2%, 9.0%, 9.6% and 12.8% of our trade and lease receivables (gross) as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our trade and lease receivables turnover days decreased from approximately 24.8 days for the year ended December 31, 2019 to approximately 15.1 days for the years ended December 31, 2020, decreased to approximately 12.4 days for the year ended December 31, 2021, and further decreased to approximately 11.8 days for the six months ended June 30, 2022. We cannot assure you that our trade and lease receivables turnover days will not increase, and there is no assurance that our customers, will pay us on time or at all or whether any of them will fall into financial difficulties, thereby affecting their ability to pay us. If significant amounts due to our Group are not settled on time or at all, our financial condition may be materially adversely affected, which will in turn affect our business operations. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

In addition, we may not be able to effectively control the IT devices provided to our customers under our device subscription services. Since the IT devices we provided to our customers under our device subscription services are moveable properties, we may not be able to effectively control the IT devices provided to our customers under our device subscription services. If we are unable to reclaim actual control or possession of the IT devices, we may be forced to write off such assets on our balance sheet and recognize losses, which could materially and adversely affect our business, results of operations and financial condition. While we have developed a risk control system model that integrates an online intelligent credit profile review system and an offline manual assistance mechanism to assess customers' credibility and potential risks, we cannot guarantee that such internal controls and procedures will always be effective. If we fail to identify material credit risks in advance and dispatch personnel to resolve the problems in a timely manner, we may not be able to reclaim actual possession of the IT devices. As a result, we may need to bring up litigation in certain circumstances which is costly and can impose a significant burden on our management and resources.

We have incurred significant upfront costs for device procurement during the Track Record Period. Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future to purchase device could have a material adverse impact on our business, results of operations and financial condition.

We have incurred significant upfront costs for device procurement during the Track Record Period. A major portion of our devices for subscription were purchased using borrowings from banks and other financial institutions. Our current and non-current borrowing balance was RMB176.3 million, RMB303.6 million, RMB541.6 million and RMB653.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The effective interest rates of our Group's borrowings ranged from 5.6% to 15.5%, 5.4% to 15.5%, 5.2% to 12.8%, and 4.0% to 12.0% per annum for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively. Ranges of effective interest rates of our bank borrowings and finance leases have remained relatively stable during the Track Record Period. In particular, the effective interest rates of our bank borrowings (mostly unsecured) ranged from 5.6% to 7.5%, 5.4% to 8.0%, 5.2% to 8.0%, and 4.0% to 8.0% per annum for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively, while those of our finance leases ranged from 7.3% to 15.5%, 7.3% to 15.5%, 6.3% to 12.8%, and 6.3% to 12.0% per annum for the years ended December 31, 2019, 2020 and 2021, and for the six months ended June 30, 2022, respectively. As our business scale continues to grow at a faster pace, we may require additional cash resources to finance our continued growth or other future developments, including any investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the growth of our business and the amount of cash flow from our operations. Also, the promptness and adequacy of the funding from banks and financial institutions are subject to many external factors beyond our control, including the financial institutions' prolonged internal procedures. We are also exposed to interest rate risk in relation to restricted deposits, fixed-rate borrowings and lease liabilities. If we cannot obtain sufficient and prompt borrowings from bank and other financial institutions at satisfactory interest rates to fund our business, we may be forced to delay or abandon our growth plans, and our liquidity would be negatively affected, adversely affecting our financial condition, results of operations and growth prospects. Moreover, as we cannot pass on any increase in interest expenses to our customers via adjustment in subscription price, which remain unchanged during subscription period, our results of operations and financial condition may also be adversely affected if we fail to adjust the subscription prices for new agreements accordingly.

Upon expiry of existing subscription agreements, we may not be able to enter into new device subscription agreements at prices we expected. We cannot adjust the prices at which our devices are subscribed for during their subscription periods.

Prevailing subscription periods pursuant to the agreements under our long-term device subscription business range from 12 months to 36 months. Prevailing subscription periods pursuant to the agreements under our short-term device subscription business are less than three months. Upon expiry of existing subscription agreements, if our customers have no intention to renew the agreements, the relevant devices will be collected from the existing customers and become available for subscription again after the necessary refurbishment. However, we cannot assure you that, when entering into new subscription agreements, the relevant devices can be subscribed for at prices we expected as such prices are subject to factors such as the emergence of devices of newer models, design and functions as well as the demand and supply conditions of devices for subscription in general. We cannot adjust the prices at which our devices are subscribed for during their subscription periods. If our devices available for subscriptions need to be subscribed for at less favorable prices, our results of operations and financial condition may be adversely affected.

Our initiatives to incorporate new technologies may not succeed, which may limit our future growth.

The markets in which we operate and compete are characterized by constant change and innovation, and we expect these markets to continue evolving rapidly. Our ability to attract new customers, retain existing customers and increase the cross-selling of DLM solutions among our service categories depends, to a large extent, on our ability to keep pace with the continued technological development of the market. We cannot guarantee that the technology adopted by de-commissioned IT devices and devices for subscription we purchase can always satisfy customers' evolving needs. In addition, we have invested and planned to continue investing in research and development of our in-house IT system and co-developing customer service portals with our business partners to meet our business needs and support our further development. However, our investment may not lead to positive results and there is no guarantee that we will be able to enhance technology capabilities successfully. For example, we plan to upgrade system infrastructure to improve our operational efficiency, but we cannot assure you that our efforts in development will succeed. Any failure on our efforts may adversely affect our business, results of operations, financial condition and prospects.

We collect, store and process certain business data of our own business and our customers. If our information system security is compromised and such business data is accessed without authorization, our reputation may be harmed, and we may be exposed to potential liability and significant loss of business.

We collect, store and process certain data, including data of our own business in our database and other relevant operating data from our customers. We face risks inherent in handling large volumes of data and in protecting the security of such data. While we have taken steps to protect the confidential information that we have access to, we cannot guarantee the effectiveness of these measures in all circumstances. Any accidental or willful security breaches or other unauthorized access to our system could cause confidential information relating to our customers to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, it may lead to the loss of our customers' data, which in turn our relationships with customers could be severely damaged, we could incur significant liability and our business and operations could be adversely affected. Failure to protect data of our own business would also lead to significant loss of business and adversely affect our results of operation. A security breach could require that we expend substantial additional resources related to the security of information systems and disrupt our business.

The regulatory environment surrounding information security and privacy is increasingly demanding, and it frequently imposes new and changing requirements. The PRC Data Security Law provides a national data security review system, under which data processing activities that affect or may affect national security shall be reviewed, but it does not set forth details on how the data security review will be implemented. On November 14, 2021, the Cyberspace Administration of China, or the CAC, issued the Regulations on the Administration of Cyber Data Security (Draft for Comments), or the Draft Data Security Regulations, for public comments pursuant to which data processors carrying out the following activities must, in accordance with the relevant national regulations, apply for a cybersecurity review: (i) the merger, reorganization or spin-off of internet platform operators that possess a large number of data resources related to national security, economic development and public interests that affect or may affect national security; (ii) listing in a foreign country by data processors that process the personal information of more than one million users; (iii) listing in Hong Kong of data processors that affect or may affect national security; and (iv) other data processing activities that affect or may affect national security. The scope of and threshold for determining what "affects or may affect national security" is still subject to uncertainty and further elaboration by the CAC. On December 28, 2021, the CAC and other twelve PRC regulatory authorities jointly issued the Cybersecurity Review Measures, which require that (i) any procurement of network products and services by critical information infrastructure operators, which affects or may affect national security, or (ii) any data processing activities by network platform operators, which affect or may affect national security, or (iii) any network platform operator which has personal information of more than one million users and is going to be listed in a foreign country, shall be subject to cybersecurity review. Since the measures were recently promulgated, there are uncertainties with respect to their interpretation and implementation. In anticipation of the strengthened implementation of cybersecurity laws and regulations and the continued expansion of our business, we cannot rule out the possibility that we may be deemed to be a "critical information infrastructure operator" or a "network platform operator" that affects or may affect national security under the Cybersecurity Review Measures. If that were to happen, we would be required to follow cybersecurity review procedures. In addition to laws, regulations and other applicable rules regarding data privacy and cybersecurity, industry associations may propose new and different privacy standards. As a result, any actual or alleged failure to comply with the evolving data privacy and protection laws and regulations could damage our reputation and negatively affect our business operation and financial position.

Our historical growth rates may not be indicative of our future growth. If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We experienced fast growth in our revenue during the Track Record Period. In 2019, 2020 and 2021, our revenue was RMB500.3 million, RMB1,022.2 million and RMB1,330.4 million, respectively, representing a CAGR of 63.1%. Furthermore, our revenue increased by 59.1% to RMB854.0 million for the six months ended June 30, 2022 from RMB536.9 million for the same period in 2021. We cannot assure you that we are able to sustain our historical growth rate for various reasons, including uncertainty of our continuous offerings of quality services to attract new customers, failure of our marketing strategies and intensified competition within the DLM and targeted markets in China.

In addition, we plan to continue to invest substantial financial, management and operational resources to sustain our growth. However, we cannot assure you that we will be able to continually obtain these resources in the future. For instance, we may not be able to obtain additional internal and external capital to support our business growth on commercially acceptable terms, or to retain and attract sufficient number of competent staff to support our business development.

Our revenue, expenses and operating results may vary from period to period due to various factors beyond our control, including the economic growth, development of DLM industry, as well as changes in laws, regulations and rules applicable to the DLM industry in China. Any unfavorable change in the factors above may prevent us from maintaining our historical growth rate. As a result of these, and other factors, we cannot assure you that our future revenues will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

We have incurred accumulated losses and net losses during the Track Record Period.

We have incurred accumulated losses and net losses during the Track Record Period. We recorded net losses of RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, primarily due to (i) the fair value changes of financial liabilities at fair value through profit or loss and (ii) the increase in distribution and selling expenses due to the increase in salaries and welfare of our sales and marketing team and customer acquisition expenses paid to our business partners. We recorded losses on fair value changes of financial liabilities measured at fair value through profit or loss of RMB10.1 million, RMB189.7 million, RMB433.9 million and RMB278.2 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021, which were mainly driven by the increased valuation of our Company. We recorded accumulated losses of RMB58.7 million, RMB236.3 million, RMB687.4 million, RMB504.4 million and RMB693.2 million as of December 31, 2019, 2020 and 2021 and June 30, 2021 and 2022, respectively. The accumulated losses in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022 were primarily attributable to net losses of RMB60.3 million, RMB177.1 million, RMB448.7 million, RMB268.1 million and RMB5.8 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively. We can not guarantee that we will not incur losses again in the future. Our ability to achieve profitability depends largely on, among other factors, our ability to successfully enhance customer stickiness and grow our customer base, manage our device utilization, manage costs and increase operational efficiencies. If we are unable to generate adequate revenues or effectively manage our costs and expenses, we may continue to incur losses in the future and may not be able to achieve or subsequently maintain profitability.

We recorded net current liabilities during the Track Record Period and may not generate sufficient cash flows in the future to finance our operations or satisfy our current liabilities. We recorded net liabilities as of December 31, 2020 and 2021 and June 30, 2022.

We recorded net current liabilities of RMB53.3 million, RMB29.0 million, RMB139.0 million and RMB199.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, primarily because a major portion of our devices for subscription (being classified as non-current assets) were purchased using borrowings from banks and other financial institutions (portion repayable within one year being classified as current liabilities). Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debts when they become due will primarily depend on future operating and financial performance, including our ability to maintain adequate cash inflows from operating activities and our ability to obtain adequate financing. Our future performance will be impacted by prevailing economic conditions and a range of other business and competitive factors which are beyond our control. Therefore, there is no assurance that we will not experience net current liabilities in the future. The net current liabilities position would expose us to liquidity risk which could restrict our ability to make necessary capital expenditure or develop business opportunities, and our business, operating results and financial condition could be materially and adversely affected. There is also no assurance that we will always have adequate funds to meet our repayment obligations, or that our historical net current liabilities will not impair our ability to obtain new borrowings to finance our operation or capital commitments. In such circumstances, our business, financial position, results of operations and prospects may be materially and adversely affected.

We recorded net liabilities of RMB169.9 million, RMB630.2 million and RMB612.5 million as of December 31, 2020 and 2021 and June 30, 2022, respectively. Our net liabilities position as of December 31, 2020 and 2021 and June 30, 2022 was primarily due to the increase in fair value of investment by the Pre-[**REDACTED**] Investors, which were recognized as financial liabilities at fair value through profit or loss. For details, please see "Financial Information – Indebtedness – Financial liabilities at FVTPL." The series of investments as of June 30, 2022 have been converted to the Company's Preferred Shares as part of the reorganization and will be converted into equity upon the [**REDACTED**]. There can be no assurance that we will not experience liquidity problems in the future. A net liabilities position can expose us to the risk of shortfalls in liquidity. This in turn would require us to seek adequate financing from sources such as external debt, which may not be available on terms favorable or commercially reasonable to us or at all. Any difficulty or failure to meet our liquidity needs as and when needed can have a material adverse effect on our prospects.

We incurred gross loss for our device subscription services in 2019, and the gross profit margins of our three service lines had fluctuated during the Track Record Period and may continue to fluctuate in the future.

We had gross loss for our device subscription services in 2019 of RMB14.3 million primarily due to lower prices offered to our customers to expand our device subscription services. We generally recognize revenue from device subscription services and IT technical subscription services over time by reference to the progress towards complete satisfaction of the relevant performance. When we provide IT technical subscription services couple with our device subscription services, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. It represents the price at which the Group would sell a promised good or service separately to a customer. These subscription fees do not change in line with the actual amount of costs we incur in connection with such services. We recognise the full amount of subscription fees we charge customer as our revenue, and recognize the actual costs we incur in connection with rendering our services as our cost of sales and services. We cannot assure you that our existing and future device subscription services will achieve the anticipated level of demand and we may incur loss if our revenue from device subscription services is unable to offset our costs of such services. Further, customers may not choose or continue to use our device subscription services if our competitors offer superior and more customer-friendly products and services. If any of the above occur, it may materially and adversely affect our results of operations, financial condition and prospects.

We had experienced significant fluctuations in our gross profit margins for three service categories during the Track Record Period. Gross profit margin for our device recycling income increased from 0.1% in 2019 to 6.5% in 2020, decreased to 3.1% in 2021, and further decreased to 2.0% for the six months ended June 30, 2022. Gross margins of our device recycling business largely depend on our product mix. During the Track Record Period, gross profit margins of major types of IT devices of our device recycling business varied significantly, primarily due to combination of various factors such as changes in device model and configuration as well as market demand and supply. Attributable to its trading nature, the gross margins of our device recycling business primarily reflect the difference between the prices at which we procured the de-commissioned devices and at which we subsequently sold them and are therefore lower compared to the gross margins of our subscription business, which are provision of services by nature. Gross profit margin for our device subscription services increased from minus 17.4% in 2019 to 4.5% in 2020, increased to 23.2% in 2021, and further increased to 24.7% for the six months ended June 30, 2022. Gross profit margin for IT technical subscription services decreased from 81.6% in 2019 to 80.3% in 2020, decreased to 72.9% in 2021, and further decreased to 69.2% for the six months ended June 30, 2022. For details of the reasons for the fluctuations of gross profit margins, please refer to "Financial Information – Discussion of Results of Operations." There can be no assurance that we will be able to maintain and secure the gross profit margins at the levels recorded during the Track Record Period. In addition, our gross profit margin for three services categories may decline to a material extent for other reasons, including decreasing consumer spending, increasing competition, and changes in government policies or general economic conditions which are, to a large extent, beyond our control. Accordingly, we cannot guarantee that our gross profit margins will not fluctuate from time to time. If there is any decline in our gross profit margins in the future or if we fail to sustain the relatively high gross profit margin, our profitability and financial condition may be adversely affected.

We may not be able to conduct our sales and marketing cost-effectively and we cannot guarantee that our cost control strategies and measures will be continually and effectively executed in the future and achieve their expected effects.

We promote our brand and attract new customers primarily through (i) direct sales efforts, (ii) user traffic gained from our strategic Shareholders and business partners, (iii) advertisements on search engines and (iv) referrals by our existing customers. See "Business – Sales and Marketing – Marketing and Branding" for details. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, our distribution and selling expenses was RMB73.0 million, RMB78.2 million, RMB115.9 million, RMB50.5 million and RMB64.9 million, respectively. Our efforts to market our brand have incurred significant costs and expenses and we intend to continue to do so. We cannot assure you, however, that our distribution and selling expenses will lead to increasing revenue, and even if they did, such increases in revenue might not be sufficient to offset the expenses incurred. Additionally, our brand promotion and marketing activities may not be well received by customers and may not result in the levels of sales that we anticipate. If we fail to conduct our sales and marketing activities in a cost-effective way, we may incur considerable marketing expenses, which could adversely affect our business and operating results. We may need to enhance our marketing approaches and experiment with new marketing methods to keep pace with industry developments and customer preferences. Failure to introduce new marketing approaches in a cost-effective manner could reduce our market share and materially and adversely affect our financial condition, results of operations and profitability.

In addition, we cannot guarantee that our cost control strategies and measures will be continually and effectively executed in the future and achieve their expected effects. Our continued growth depends on our ability to enhance cost control and improve operational efficiency. However, we cannot guarantee that measures we implement will continue to be effectively executed in the future, or that we can continue to maintain or increase our net profit margin in the future. In addition, we may be required to adjust the relevant cost control strategies and measures in response to the changes in economic condition and business development needs. If such control strategies and measures fail to achieve their expected effects, our operating costs may increase, which in turn may adversely affect our business, financial condition and results of operations.

Our results of operations, financial condition and prospects may be adversely affected by fair value changes of financial liabilities at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs.

In 2019, 2020 and 2021, we recognized fair value loss of financial liabilities at fair value through profit or loss of RMB10.1 million, RMB189.7 million and RMB433.9 million, respectively, and gain of RMB36.4 million for the six months ended June 30, 2022, primarily attributable to the investments by our Pre-[**REDACTED**] Investors. Our Group applied the backsolve method and discounted cash flow method to determine the underlying equity value of LX Technology and adopted equity allocation model based on the Black-Scholes option pricing model involving various parameters and inputs to determine the fair value of the financial liabilities at fair value through profit or loss, which was classified as level 3 fair value measurement for financial reporting purpose. Some inputs, such as possibilities under different scenarios, including qualified [**REDACTED**], redemption, liquidation, and other inputs, such as time to liquidation, discount rate, risk-free interest rate, and expected volatility value, require management estimates. The significant unobservable inputs used in the fair value measurement is expected volatility value. An increase in expected volatility value would result in a slight change in fair value, and vice versa.

Therefore, the valuation of fair value change of financial liabilities at fair value through profit or loss are subject to uncertainties in estimations. Such estimated changes in fair values involve the exercise of professional judgment and the use of certain bases, assumptions and unobservable inputs, which, by their nature, are subjective and uncertain. It may lead to changes in the fair value of financial liabilities at fair value through profit and loss, and changes in such fair value may affect our financial performance. In addition, the valuation methodologies may involve a significant degree of management judgment and are inherently uncertain, which may result in material adjustment to the carrying amounts of certain liabilities and in turn may materially and adversely affect our results of operations. As such, the financial liabilities at fair value through profit or loss valuation has been, and will continue to be, subject to uncertainties in estimations, which may not reflect the actual fair value of these financial assets and result in significant fluctuations in profit or loss from year to year. The series of investments as of June 30, 2022 have been converted to the Company's Preferred Shares as part of the reorganization and will be converted into equity upon the [**REDACTED**]. We do not expect to recognize any further loss or gain on fair value changes from Pre-[**REDACTED**] Investments in the future.

Failure to accurately forecast market demand may result in excessive or insufficient IT devices in inventory or property, plant and equipment, which could lead to inventory obsolescence, increase our costs or cause us to lose sales opportunities.

Incorrect forecasting of demand in the future could result in us experiencing an excess or a shortage of inventory and property, plant and equipment. With respect to device recycling business, there may be risks of excess inventory level. The failure to manage the increase in our inventories or accurately forecast the demand of our customers may result in obsolescence of our inventories and adversely affect the result of our business operations. Our inventories primarily consist of (i) de-commissioned IT devices such as laptops, monitors, tablet computers acquired via and held for sale under our device recycling business and (ii) device components and accessories. Our inventories increased from RMB45.9 million as of December 31, 2019 to RMB122.0 million as of December 31, 2020, but decreased to RMB74.3 million as of December 31, 2021, and further decreased to RMB63.1 million as of June 30, 2022. In addition, the price of IT devices in second-hand market fluctuates and may have a great impact on the gross profit of our device recycling business. With respect to device subscription services, there may be risks of excess property, plant and equipment. In 2019, 2020 and 2021 and for the six months ended June 30, 2022, our property, plant and equipment accounted for 52.1%, 54.5%, 62.4% and 60.4% of our total assets, respectively. In 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, the average monthly utilization rates of our major types of device for subscription were 83.4%, 83.7%, 84.9%, 83.5% and 81.7%, respectively. Therefore, maintaining optimal inventory levels and carrying amounts of property, plant and equipment are critical to our financial condition and results of operations. We are exposed to risks as a result of a variety of factors beyond our control, including changing consumption trends and preferences and product generation replacement due to technological development. What's more, due to the COVID-19 outbreak, the lead times between ordering and delivery were prolonged, which made it more difficult to accurately forecast demand. We cannot assure you that we can accurately predict these trends and events and maintain adequate levels of inventory and property, plant and equipment at all times. If orders do not match actual demand, we could have higher or lower anticipated stock levels and this could lead to higher interest charges or less interest income, price reductions, inventory obsolescence or write downs of slow moving or excessive stock resulting in lower profits.

We assess impairment to inventories at each period end during the Track Record Period, and may make provision to write down our inventories to the net realizable value if they become obsolete, out-of-season or are damaged or their prices went down and their net realizable value is lower than the costs, or reduce the recoverable amount of property, plant and equipment if the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount. However, we cannot assure you that we will not experience material write-offs in the future. If we cannot manage our inventory level efficiently in the future, it could increase our costs or cause us to lose sales opportunities, and our liquidity and cash flow may be adversely affected.

If we need to recognize significant impairment losses on other receivables, deposits and prepayments, our results of operations and financial condition may be adversely affected.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our other receivables, deposits and prepayments amounted to RMB80.2 million, RMB135.6 million, RMB140.7 million and RMB136.9 million, respectively. Our VAT receivables as of December 31, 2019, 2020 and 2021 and June 30, 2022 were RMB42.8 million, RMB68.9 million, RMB85.1 million and RMB90.5 million, amounting for 53.3%, 50.8%, 60.5% and 66.1%, respectively, of our other receivables, deposits and prepayments in the same periods. Our VAT receivables continuously increased during the Track Record Period as a result of the significant increase in purchase of equipment for subscription in response to increasing demand for our device subscription services. We cannot assure you that our VAT receivables will not increase. If we need to recognize significant impairment losses on other receivables, deposits and prepayments, our results of operations and financial condition may be adversely affected.

We may face risk regarding the recoverability of deferred tax assets.

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our deferred tax assets amounted to RMB9.6 million, RMB7.7 million, RMB5.5 million and RMB6.8 million, respectively. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. For details of the movements of our deferred tax assets during the Track Record Period, please see note 16 in Appendix I to this document. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets. In the case that the value of the deferred tax assets has changed, our Group may have to write-down the deferred tax assets, which may significantly affect our expenditure, profit and loss and financial condition in that respective year/period.

We have adopted employee incentive plans, which would dilute shareholding interest and lead to share-based compensation expenses that may negatively impact our profitability.

We have adopted employee incentive plans, including LX Brothers Employee Incentive Plan, Beauty Bear Employee Incentive Plan and Restricted Share Award Scheme, with details set forth in "Statutory and General Information – D. Employee Incentive Plans" in Appendix IV to this document. We recognized share-based payments expense of RMB23.6 million during the Track Record Period. Any newly granted restricted share award(s) under the share incentive plans, options, or any other share-based compensations that we may grant from time to time may result in an increase in our issued share capital, which in turn may result in a dilution of our shareholders' shareholding interest in our Company and a reduction in earnings per Share.

In addition, as a result of the Shares to be issued under the employee incentive plans, we expect to incur share-based compensation expenses in the future. As a result, we will recognize expenses in our consolidated statements of profit or loss and other comprehensive income, which may have a material adverse effect on our net income. The expenses associated with share-based compensation will decrease our net profit and the additional shares issued will dilute the ownership interests of our shareholders.

We may be subject to additional contributions of social insurance and housing provident fund and late payments and fines imposed by relevant governmental authorities.

As advised by our PRC Legal Advisor, an employer that has not made social insurance contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late payment fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue.

During the Track Record Period and up to the Latest Practicable Date, we did not make full social insurance and housing provident fund contribution for our employees in strict compliance with relevant laws and regulations. We have not received any notice or penalty from the relevant government authorities or any claim or request from these employees in this regard. For details, see "Business – Employees."

However, we cannot assure you that the relevant government authorities will not require us to pay the outstanding amount and impose late payment fees or fines on us. If we are otherwise subject to investigations related to non-compliance with labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

Our failure to provide quality services and may materially and adversely impact our brand, business and financial results, and our customers may lose confidence in us.

Our IT devices provided to customers for subscription may contain quality issues, technical problems, security vulnerabilities, hardware or software issues that are difficult to detect or correct until their deployment, particularly when first introduced or when new versions or enhancements are released. Despite internal testing, our platform may contain quality issues, or hardware and software issues which we are unable to successfully correct in a timely manner or at all, which could result in diversion of significant resources to analyse, correct, address and eliminate the issues. This may also result in revenue loss, significant expenditures of capital, a delay or loss in market acceptance and damage to our reputation and brand, any of which could have an adverse effect on our business, reputation, financial condition, and results of operations.

In addition, the success in our business and retention and expansion of our customer base depends on our ability to maintain a consistently high level of services and technical support, which requires that our IT technicians have specific knowledge and expertise. We provide door-to-door delivery, installation, repair and maintenance services with our own service team in core cities such as Beijing, Shanghai, Guangzhou and Shenzhen. In areas outside the core cities, we cooperate with local service providers to conduct maintenance to the IT devices under our device subscription services. We have invested in training our IT technical staff and improving the quality of our customer services. However, if we are unable to hire and train a sufficient number of support staff to provide effective and timely support to our customers for reasons such as budgetary constraints and employee losses, or if our local service providers fail to provide quality customer services, our customers' satisfaction with our solutions and services may be adversely affected, resulting in reduced customer spending, customer complaints or negative publicity which will adversely affect our reputation and materially and adversely affect our business, results of operations, financial conditions and prospects.

We may not be able to maintain the pricing terms for our services or retain our customers at favorable prices. In addition, we may not be able to compete successfully against our existing and future competitors.

We may need to decrease prices of our services to stay competitive. As the markets for our services mature, or as new competitors introduce new services that compete with ours or adopt more aggressive pricing policies, we may be unable to attract new customers at the same price or based on the same pricing model as we have adopted historically. As a result, in the future we may be required to reduce our prices, which could materially and adversely affect our results of operation and financial condition.

Our customers have no obligation to renew their subscriptions for our services after expiration of the initial subscription period or IT technical subscription services for our DLM solutions on our desired terms. Our customers may renew for fewer IT devices of our services or on pricing terms less favorable to us which may lead to the decline of our customer retention rates. Our customers' retention rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our pricing or our services, and their ability to continue their operations and spending levels. In addition, over time the average term of our contracts could change based on retention rates or for other reasons. If our customers do not renew their subscriptions for our services on similar terms, our revenues may decline, and our business, results of operations and financial condition may be materially and adversely affected.

We operate in a competitive market and may not be able to compete successfully against our existing and future competitors.

We face competition in various aspects of our business in the DLM industry, including research and development capabilities, customer bases and services, talents, brand awareness, commercial relationships and financial, technical, marketing and other resources. Even though we have accumulated years of experience and comprehensive resources in the industry, our competitors may be able to develop services better received by DLM users or may be able to devote greater resources to the research and development of DLM, respond more quickly and effectively to new opportunities and changing technologies, regulations and customers' needs. In addition, some of our competitors may quickly expand their existing customer base and sales network and adopt more aggressive pricing policies and offer more attractive sales terms. This could cause us to lose potential sales or compel us to sell our solutions and services at lower prices to remain competitive, which may have a material adverse impact on our results of operation and financial condition.

We may be subject to intense competition if any of our competitors enters into business partnerships or alliances or raises significant capital, or if established companies from other market segments or geographical markets expand into our market segment or geographical market. Any existing or potential competitor may also choose to operate based on a different pricing model or lower their price in order to increase their market share. If we are unable to compete successfully against our current or potential competitors, our business, financial condition and results of operations may be materially and adversely impacted.

Our brand is integral to our success. If we fail to effectively maintain, promote and enhance our brand, our business and competitive advantage may be harmed.

We believe that maintaining, promoting and enhancing our brand is critical to maintaining and expanding our business. Maintaining and enhancing our brand depends largely on our ability to continue to provide quality DLM solutions, which we cannot assure you we will do successfully. Quality issues, technical problems, security vulnerabilities, hardware or software issues with our IT devices may harm our reputation and brand, and we may introduce new services which might be poorly received by our customers. Additionally, if our customers have a negative experience using our services, such an encounter may affect our brand and reputation within the industry. What's more, we believe the importance of brand recognition will increase as competition in our market increases. In addition to our ability to provide reliable and useful DLM solutions at competitive prices, the successful promotion of our brand will also depend on the effectiveness of our marketing efforts. We cannot assure you that our marketing spends will lead to increased revenue, and even if so, such increases in revenue may not be sufficient to offset expenses we incur in building and maintaining our reputation and brand name.

We may not be able to repay our debts, and we may incur more debts.

We expect to continue to maintain a significant level of indebtedness. Our current and non-current borrowing balance was RMB176.3 million, RMB303.6 million, RMB541.6 million and RMB653.5 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. We may not be able to satisfy our payment obligations due to several reasons, including (i) our customers' failure to pay us on time; (ii) our inability to properly manage cash flow; and (iii) a general decline in our business volume and operations. Our creditors also have the right to require further security or collateral if the value of collateral declines. If any of the abovementioned events happens, we may not be able to fully perform our obligations under the agreements, and may incur penalty costs or damages to our liquidity position, which could materially and adversely affect our results of operations and financial condition. Furthermore, failure to repay debts may negatively affect our credit ratings, which will cause our financing costs to increase and weaken our fundraising capabilities, further affecting our liquidity position and financial condition.

Negative publicity and allegations involving us, our shareholders, directors, officers, employees, associates and business partners may affect our reputation and, as a result, our business, financial condition, and results of operations may be negatively affected.

We rely on the market recognition of our services. We believe that business growth depends heavily on the customers' perception of us and we anticipate that we will continue to rely on market recognition of our services in our future business. If we fail to promote our business or to maintain or enhance the recognition and awareness of our business among our customers, or if we are subject to incidents or allegations adversely affecting our image or our publicly perceived position, our business, results of operations, financial conditions and prospects could be adversely affected. In addition, to the extent our employees and business partners were incompliant with any laws or regulations, we may also suffer negative publicity or harm to our reputation. As a result, we may be required to spend significant time and incur substantial costs in response to allegations and negative publicity, and our business, financial condition, and results of operations may be negatively affected.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from any unauthorized use of our technologies.

Our trade secrets, trademarks, software copyrights, and other intellectual property rights are critical to our success. We rely on, and expect to continue to rely on, unfair competition laws and contractual rights, such as confidentiality agreements with our employees and third parties with whom we have relationships to protect our intellectual properties. However, these agreements may be inadequate or may be breached, either of which could potentially result in unauthorized use or disclosure of our trade secrets and other proprietary information to third parties, including our competitors. As a result, we may lose our crucial competitive advantages derived from such intellectual property. Significant impairments on our intellectual property rights may result in a material and adverse effect on our business. In addition, events beyond our control may pose threats to our intellectual property rights, as well as to our brand. Effective protection of our trademarks, software copyrights, domain names, and other intellectual property rights is expensive and difficult to maintain, both in terms of application and costs, as well as the costs of defending and enforcing those rights. Therefore, we cannot assure you that our protection efforts are effective or sufficient to guard against any potential infringement and misappropriation, which could result in them being narrowed in scope or declared invalid or unenforceable.

We may be subject to claims by third parties for intellectual property infringement.

We depend to a large extent on our ability to effectively develop and maintain intellectual property rights relating to our business. However, we cannot assure you that our competitors and other third parties will not bring legal claims against us for infringing on their patents, copyrights, trademarks or other intellectual property rights, whether such claims are valid or otherwise. The intellectual property laws in China, which cover the validity, enforceability and scope of protection of intellectual property rights, are evolving, and litigation is becoming a more commonly pursued method for resolving commercial disputes. Given the foregoing and the increasing competition in the market, we are exposed to a higher litigation risk. Any intellectual property lawsuits against us, whether successful or not, may harm our brand and reputation.

Defending against intellectual property claims is costly and can impose a significant burden on our management and resources. Further, there is no guarantee that we can obtain favorable judgment in all legal cases, in which case we may need to pay damages or be forced to cease using certain technologies or content that are critical to our services. Any resulting liabilities or expenses or any changes to our services that we have to make to limit future liabilities may have a material adverse effect on our business, results of operations and prospects.

We are subject to risks relating to litigation and disputes, which could adversely affect our business, prospects, results of operations and financial condition.

We may be subject to disputes or claims of various types brought by our competitors, employees, suppliers, customers, business partners or governmental entities against us relating to contractual disputes, labor disputes, intellectual property infringements or disputes involving misconducts of our employees. Such claims and disputes may evolve into litigations and damage our reputation and goodwill, thereby adversely affecting our customer base. For example, we were involved in certain lawsuits in relation to labor disputes initiated by our former employees during the Track Record Period and up to the Latest Practicable Date. See "Business – Employees." We cannot guarantee that we will not be subject to such legal proceedings in the ordinary course of business. Litigation is distractive and expensive as it may cause us to incur defense costs, utilize a significant portion of our resources and divert management team's attention from our day-to-day operations, any of which could harm our business. In addition, we may need to spend a significant amount to settle claims or pay damages if we lose a lawsuit, which could have a material and adverse effect on our business, financial condition and results of operations.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, and other key employees, to oversee and execute our business plans and identify and pursue new opportunities and innovations. Any loss of service of our senior management or other key employees could significantly delay or prevent us from achieving our strategic business objectives, and adversely affect our business, financial condition and operating results. We cannot guarantee you that we will not experience such problems in the future. From time to time, there may be changes in our senior management team, resulting from the hiring or departure of executives, which could also disrupt our business. Hiring suitable replacements and integrating them within our business also require significant amounts of time, training and resources, and may impact our existing corporate culture.

Our results of operations are subject to seasonal fluctuations.

We have experienced, and expect to continue to experience, seasonality in our business. For details, see "Business – Seasonality." During the Track Record Period, we recorded higher revenue generation in the second half than in the first half of a year, especially on our device recycling business which accounted for a relatively large proportion of our revenue during Track Record Period. This is mainly attributable to the tendency that most of enterprise and also our suppliers make close-to-year-end disposal plans to match with their recruitment schedules, which results in higher IT device recycling demands in the second half of a year. As a result, our revenue and business performance may vary considerably from periods to periods. The comparison of revenue and operating results from different periods in any given financial year may not be relied upon as indicators of our performance. Should there be any adverse change in the tendency of disposal plans or other market trends, we may not be able to dispose the purchased IT devices in a timely manner. As a result, our profitability, results of operation and business may be adversely affected.

If we are unable to attract, retain and motivate qualified talents, our business may be adversely affected.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled talents specializing in research and development and marketing, particularly with experience in the DLM market in China. In order to enhance the stability of our team, we have devoted to building a nurturing corporate culture and offered various incentives and trainings to our highly skilled talents. Nevertheless, we cannot assure you that we can attract or retain qualified talents. The inability to do so or delays in hiring required talents may cause significant harm to our business, financial condition and operating results. We may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth, thereby materially and adversely affecting our business, financial condition, results of operations and prospects.

Meanwhile, the size and scope of our business may require us to hire and retain a wide range of effective and experienced personnel who can adapt to a dynamic, competitive and challenging business environment. Competition for talent and qualified talents in the PRC DLM and targeted markets is intense. Competition for these individuals could cause us to offer higher compensation and other benefits to attract and retain them. In addition, even if we were to offer higher compensation and other benefits, we cannot assure you that these individuals would choose to join, or continue working for us. If we fail to attract and retain talents with suitable managerial or other expertise, or to maintain an adequate labor force on a continuous and sustained basis, our financial position and results of operations could be materially and adversely affected.

Any discontinuation, reduction or delay of any government grants, tax refund, or preferential tax treatments would have a material and adverse impact on our business.

During the Track Record Period, we received government subsidies of RMB3.8 million, RMB10.8 million, RMB10.7 million, RMB3.9 million and RMB5.3 million in 2019, 2020 and 2021 and for the six months ended June 30, 2021 and 2022, respectively, primarily in the form of industry-specific subsidies granted by the local government authorities in China to encourage research and development projects and high-tech enterprises. In addition, we have benefited from preferential tax treatments from the PRC government during the Track Record Period. LX Technology, a major operating entity of the Group in the PRC, was qualified as "High and New Technology Enterprises" in October 2017 which was subsequently renewed in December 2020 with a valid period of three years, and therefore LX Technology is entitled to a preferential income tax rate of 15% for the Track Record Period. Certain subsidiaries were qualified as "Small Low-profit Enterprise" and were subject to preferential income tax rate. According to a policy promulgated by the State Tax Bureau of the PRC and the Ministry of Finance of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 75% or 175% of the research and development expenses incurred in a year as tax deductible expenses in determining the taxable income for that year ("**Super Deduction**"). LX Technology has claimed such Super Deduction in ascertaining its tax assessable profits for the Track Record Period. We cannot assure you that we will continue to receive government grants at the same level or at all, or that we will continue to enjoy the current preferential tax treatments, in which case our business, financial condition and result of operations may be materially and adversely affected.

We may not have sufficient insurance coverage to cover our potential liability or losses and as a result, our business, financial conditions, results of operations and prospects may be materially and adversely affected should any such liability or losses arise.

We face various risks in connection with our business, and may lack adequate insurance coverage or have no relevant insurance coverage. Insurance companies in China do not currently offer as extensive an array of insurance products as insurance companies in other more developed economies do. As such, we cannot insure against certain risks related to our assets or business even if we desire to.

As of the Latest Practicable Date, we had not obtained any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring against these risks, and the difficulties associated with acquiring such insurances on commercially reasonable terms render these insurances impractical for our business. However, any uninsured occurrence of including, among others, business disruption, material litigation, natural disaster or significant damages to our uninsured devices or facilities may result in our incurring substantial costs and the diversion of resources, which could have a material adverse effect on our business and results of operations. What's more, our current insurance coverage may not be sufficient to prevent us from any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition, results of operations and prospects could be materially adversely affected.

We may be liable for failure to register and file our lease agreements, which may subject us to penalties.

Pursuant to the Measures for Administration of Lease of Commodity Properties (商品房屋租賃管理辦法), both lessors and lessees are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. As of the Latest Practicable Date, ten of our leased agreements had not been registered and filed with the competent PRC government authorities as required by applicable PRC laws and regulations. See "Business – Land and Properties – Leased Properties." We cannot assure you that the lessors will cooperate and complete the registration in a timely manner. Our PRC Legal Advisor has advised us that failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements under PRC laws or impede our use of the relevant properties, but we may be subject to a maximum penalty of RMB10,000 for each non-registered lease if we fail to register such lease agreements within the time frame prescribed by the relevant PRC government authorities. As a result, any imposition of fines due to such failure may adversely affect our business operations and financial condition.

We may incur additional costs as a result of any dispute or claim arising from the title defects of our leased properties.

As of the Latest Practical Date, lessors of four lease properties were unable to provide valid ownership certificates or other sufficient ownership documents evidencing the right to lease the property to us. As a result, we cannot continue to use such properties if the lessors' rights to lease such properties are successfully challenged by any third party. We primarily use these leased properties as offices or warehouses. See "Business – Land and Properties – Leased Properties." Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate our offices. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. If we fail to find suitable replacement properties on terms acceptable to us, or if we are subject to any material liability resulting from third-party challenges for our lease of properties for which we or our lessors do not hold valid title certificates or authorizations, such may adversely affect our business, financial position, results of operations and growth prospects.

We may not be able to renew our current leases or locate desirable alternatives for our offices and warehouses.

We lease commercial properties as our offices and warehouses, and we may not be able to extend or renew such leases on commercially reasonable terms, or at all, as we will have to compete with other businesses for premises at desired locations. Rental payments may significantly increase as a result of the high demand for the leased properties. Moreover, we may not be able to extend or renew such leases upon expiration of the current term and may therefore be forced to relocate the affected operations. This could disrupt our operations and result in significant relocation expenses. We may not be able to locate desirable alternative sites for our offices and warehouses. For the leased sites registered as the address of our PRC subsidiaries, we may face the risk of being included in the list of enterprises with abnormal business operations if we fail to extend such leases or relocate the registered address and file such leases with the local authorities. The occurrence of such events could materially and adversely affect our business, financial condition, results of operations and prospects.

Any non-compliance with applicable anti-bribery and anti-corruption laws, economic sanctions and other forms of illegal acts and misconduct by our employees, customers or suppliers may materially and adversely affect our business operations.

We may be exposed to bribery, corruption, economic sanctions or other illegal acts and misconduct committed by our employees, customers, suppliers or any other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. While we have adopted and implemented internal controls and procedures to monitor both internal and external compliance with anti-bribery and anti-corruption laws, regulations and policies, we cannot guarantee that such internal controls and procedures will always be effective in preventing non-compliance and exculpating us from penalties or liabilities that may be imposed by relevant government authorities due to violations committed by our employees. If our employees are found or alleged to have violated anti-bribery or anti-corruption laws and regulations, we may face or be involved in fines, lawsuits and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in international trade or investment policies and barriers to trade or investment, the ongoing trade dispute between the U.S. and China may have an adverse effect on our business.

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs, or the perception could adversely affect the financial and economic conditions in the PRC, as well as our financial condition and results of operations. China has implemented, and may further implement, measures in response to new trade policies, treaties and tariffs initiated by the U.S. government.

Certain components of the IT devices we leased to our customers may be purchased from the U.S. If the Chinese government imposes additional tariffs on the IT devices with the U.S. as its country of origin, our costs will increase. The business of our key customers and business partners in the PRC will also be affected. In addition, any further escalation in trade tensions between China and the United States or a trade war, or the perception that such escalation or trade war could occur, may have negative impact on the economies of not only the two countries concerned, but the global economy as a whole. As a result, our business, financial condition, results of operations and prospects would be adversely affected.

Any future occurrence of a natural disaster, health epidemic or similar development could have a material adverse effect on our business. In particular, the COVID-19 outbreak had and may continue to have a negative impact on our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza, Ebola virus and the recent COVID-19 outbreak and other regions across China, may materially and adversely affect our business, financial condition and results of operations. In recent years, there have been outbreaks of epidemics in China and globally. For example, in early 2020, in connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included canceling public activities, among others. As a result, certain of our short-term device subscription services under discussion with our customers for exhibitions and conferences and other business activities have been canceled or postponed, which led to delays in revenue recognition. In addition, as the business condition of our customers has been affected by COVID-19 outbreak, they may choose not to renew their subscriptions for our services, renegotiate the price terms under the current service agreements with us or even breach the service agreement. The extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable and may continue to have a negative impact on our business, financial condition and results of operations.

We may not be able to obtain additional funding on acceptable terms or at all, which may affect our ability to expand our business or meet unforeseen contingencies.

To grow our business and remain competitive, we may require additional capital from time to time for our daily operations. Our ability to obtain additional capital is subject to a variety of uncertainties, including:

- our market position and competitiveness in the industries in which we operate;

- our future profitability, overall financial condition, results of operations and cash flows;

- general market conditions for capital-raising activities by our competitors in China; and

- economic, political and other conditions in China and internationally.

We may be unable to obtain additional capital in a timely manner or on acceptable terms, or at all. In addition, our future capital or other business needs could require us to sell additional equity or debt securities, or to obtain a credit facility. The sale of additional equity or equity-linked securities could dilute our shareholders' shareholdings. Any incurrence of indebtedness will also lead to increased debt service obligations, and could result in operating and financing covenants that may restrict our operations or our ability to pay dividends to our shareholders.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Adverse changes in the economic, political and social conditions, as well as policies of the PRC government, could have a material adverse effect on our business and prospects.

Substantially all of our revenue was derived from our businesses in the PRC during the Track Record Period. Accordingly, our business, financial condition, results of operations and prospects are, to a material extent, subject to economic, political, and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, the degree of government involvement, control of investment, level of economic development, growth rate, control of foreign exchange, and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for the past four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may adversely affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the DLM industry in China or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

The PRC legal system has potential uncertainties that could limit the legal protections available to our business and our shareholders.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which legal cases have limited value as precedents. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. Our PRC subsidiaries are subject to various PRC laws and regulations generally applicable to companies in China. However, since these laws and regulations are relatively new, and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform, and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Further, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, and any failure to respond to changes in the regulatory environment in China, could materially and adversely affect our business and impede our ability to continue our operations, and may further affect the legal remedies and protections available to investors, which may, in turn, adversely affect the value of your investment.

PRC laws and regulations concerning the DLM industry are developing and evolving. In addition, the PRC government authorities may promulgate new laws and regulations regulating the DLM industry in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to DLM. Moreover, developments in the DLM industry may lead to changes in PRC laws, regulations and policies, or in the interpretation and application of existing laws, regulations and policies that may limit or restrict DLM platforms like ours, which could materially and adversely affect our business and operations.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, and some other established regulations and rules concerning mergers and acquisitions, as well as additional procedures and requirements, could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements, in some instances, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the SAMR shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the General Office of the State Council and MOFCOM in 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns, and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns, are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

We may be classified as a "PRC resident enterprise" for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders, and have a material adverse effect on our results of operations and the value of your investment.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered as a resident enterprise, and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control over, and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those that are not controlled by PRC enterprises or PRC enterprise groups like us, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China, and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made, or are subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books, and records, company seals, and board and shareholder resolutions are located or maintained in the PRC, and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

However, the tax-resident status of an enterprise is subject to determination by the PRC tax authorities, and uncertainties remain with respect to the interpretation of the term "de facto management body." As substantially all of our management members are based in China, it remains unclear how the tax residency rule will apply in our case. If the PRC tax authorities determine that our Company, or any of our subsidiaries outside of China, is a PRC resident enterprise for PRC enterprise income tax purposes, then our Company or such subsidiary could be subject to PRC tax at a rate of 25% on its world-wide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Further, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. It is unclear whether non-PRC shareholders of our company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in our Shares.

You may be subject to PRC withholding tax on dividends from us and PRC income tax on any gain realized on the transfer of our Shares.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are "non-resident enterprises," which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. For details, see "Regulatory Overview – Regulations Relating to Tax – Enterprise Income Tax."

Under PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described above, dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. If PRC income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of the RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies, and depends, to a large extent, on domestic and international economic and political developments, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates, and to achieve policy goals. We are subject to the risk of volatility in future exchange rates and to the PRC government's controls on currency conversion.

The proceeds from the [**REDACTED**] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the Hong Kong dollar may result in a decrease in the value of our proceeds from the [**REDACTED**]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, our Shares in a foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Further, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, and results of operations and prospects, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our net revenue in RMB. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments, indirectly from our PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE by complying with certain procedures under PRC foreign exchange regulation. However, approval from, or registration with, appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies.

In light of the flood of capital outflows from China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies, and stepped up scrutiny of major outbound capital movement. More restrictions and a substantial vetting process are in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may, at its discretion, further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we will not be able to pay dividends in foreign currencies to our shareholders.

PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity, and our ability to fund and expand our business.

As advised by our PRC Legal Advisor, any funds we transfer to our PRC subsidiaries, either as a shareholder loan, or as an increase in registered capital, are subject to approval by, filing with, or registration with, relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to registration with SAMR in China. In addition, (i) any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE, or its local branches or designated banks, and (ii) each of our PRC subsidiaries may not procure loans, which exceed the difference between its registered capital and its total investment amount or do not meet certain criteria relating to its net asset. Any medium-or long-term loan to be provided by us to our PRC subsidiaries must be recorded and registered by the National Development and Reform Committee and the SAFE or its local branches or designated banks. We may not be able to complete such filing or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such filing or registration, our ability to use the proceeds of this [**REDACTED**], and to capitalize our PRC operations, may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 took effect as of June 1, 2015. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of foreign-invested enterprises, which allows foreign-invested enterprises to settle their foreign exchange capital at their discretion, but continues to prohibit foreign-invested enterprises from using the RMB fund converted from their foreign exchange capitals for expenditures beyond their business scopes. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange, or SAFE Circular 16. SAFE Circular 19 and SAFE Circular 16 continue to prohibit foreign-invested enterprises from, among other things, using RMB funds converted from their foreign exchange capitals for expenditure beyond their business scope, investment in securities or investments other than banks' principal-secured products, providing loans to non-affiliated enterprises or constructing or purchasing real estate not for self-use, except for real estate enterprises. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer to, and use in, China the net proceeds from this [**REDACTED**], which may adversely affect our business, financial condition and results of operations.

There is uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our Shareholders or our non-PRC holding companies.

On February 3, 2015, the SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) ("**Circular 7**"), which provides comprehensive guidelines relating to, and has also heightened the Chinese tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a Chinese resident enterprise (the "**Chinese Taxable Assets**"). For example, Circular 7 states that where a non-resident enterprise transfers Chinese Taxable Assets indirectly, by disposing of equity interests in an overseas holding company directly or indirectly holding such Chinese Taxable Assets, and such transfer is deemed to be, for the purpose of avoiding EIT payment obligations, and without any other bona fide commercial purpose, the transfer may be reclassified by the Chinese tax authorities as a direct transfer of Chinese Taxable Assets. Circular 7 also introduced safe harbors for internal group restructurings and the purchase and sale of equity interests through a public securities market. On October 17, 2017, the SAT promulgated the Announcement on Matters Concerning Withholding and Payment of Income Tax of Non-resident Enterprises from Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告) ("**SAT Circular 37**), which came into force on December 1, 2017. SAT Circular 37, among other things, simplifies the procedures of withholding and payment of income tax levied on non-resident enterprises.

Although Circular 7 contains certain exemptions, it is unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares, such as purchasing our Shares in the open market, and selling them in a private transaction, or vice versa, or to any future acquisition by us outside of China involving Chinese Taxable Assets, or whether the Chinese tax authorities classify such transactions by applying Circular 7. Therefore, the Chinese tax authorities may deem any transfer of our Shares by those of our Shareholders that are non-resident enterprises, or any future acquisitions by us outside of China involving Chinese Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional Chinese tax reporting obligations or tax liabilities. In addition, if we fail to comply with Circular 7 and SAT Circular 37, the Chinese tax authorities may take action, including requesting us to provide assistance in their investigation, or may impose a penalty on us, which could have a negative impact on our business operations.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries, and on our PRC subsidiaries' ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with, and obtain approval from, local branches of the SAFE in connection with their direct or indirect offshore investment activities. The Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, was promulgated by the SAFE in July 2014, requiring PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. These regulations apply to our shareholders who are PRC residents, and may apply to any offshore acquisitions that we make in the future.

Under these foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies, are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to that offshore company, to reflect any material change involving its round-trip investment, capital variation, such as a change of PRC shareholders, the name of a company, terms of operation, an increase or decrease in capital, transfer or swap of shares, merger or division. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiary of that offshore parent company may be restricted from distributing its profits, and the proceeds from any reduction in capital, share transfer or liquidation to its offshore parent company, and the offshore parent company may also be restricted from injecting additional capital into its PRC subsidiary. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions, including (i) the requirement by the SAFE to return the foreign exchange remitted overseas or into PRC within a period of time specified by the SAFE, with a fine of up to 30% of the total amount of foreign exchange remitted overseas or into PRC and deemed to have been evasive or illegal, and (ii) in circumstances involving serious violations, a fine of no less than 30% of and up to the total amount of remitted foreign exchange deemed evasive or illegal.

We are committed to complying with, and to ensuring that our Shareholders who are subject to the regulations will comply with, the relevant SAFE rules and regulations. However, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that the SAFE or its local branches will release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our investment activities in the PRC and overseas, or our cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or make other payments to us, or affect our ownership structure, which could adversely affect our business and prospects. As of the Latest Practicable Date, all of our ultimately beneficial owners who are PRC citizens, have completed their registration under the SAFE Circular 37. However, we may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents, and we cannot assure you that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update, any applicable registrations, or comply with other requirements under SAFE Circular 37 or other related rules in a timely manner.

As there is uncertainty concerning the reconciliation of these foreign exchange regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant governmental authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we, or the owners of such company, as the case may be, will be able to obtain the necessary approvals, or complete the necessary filings and registrations, required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy, and could adversely affect our business and prospects.

Any requirement to obtain approval from the MOFCOM or the CSRC could delay the [REDACTED], and any failure to obtain such approval, if required, could materially and adversely affect our business, operating results, and reputation, as well as the trading price of our Shares.

According to the M&A Rules jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC, and the SAFE on August 8, 2006, effective on September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (ii) subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise, (iii) establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise and operate those assets, or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. Where a domestic company or enterprise, or a domestic natural person, through an offshore entity established or controlled by it or him, acquires a domestic company which is related to or connected with it or him, approval from MOFCOM is required. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, in the event that the shareholders of the special purpose vehicle or the special purpose vehicle itself acquires shares of, or equity in, the PRC companies in exchange for the shares or the additionally issued shares of offshore companies.

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》(2008)) promulgated by Foreign Investment Department of the MOFCOM, notwithstanding the fact that (i) the domestic shareholder of the domestic company is connected with the foreign investor or not, (ii) whether the foreign investor is an existing shareholder or a new investor, the M&A Rules shall not apply to the merger and acquisition of equity interests in a foreign-invested enterprise.

Our PRC Legal Advisor is of the opinion that the M&A Rules are not applicable . In view of the fact that LX Technology became a sino-foreign joint venture enterprise before LX HK purchased 100% of its shares in compliance with applicable provisions and regulations, LX Technology is not a domestic company stipulated in Article 11 of the M&A Rules. Therefore, the acquisition is not subject to the approval of the MOFCOM. In addition, since the consideration was fully settled in cash, the acquisition is not subject to the approval of the CSRC. Accordingly, our PRC Legal Advisor is of the opinion that prior MOFCOM and CSRC approval under the M&A Rules for this [**REDACTED**] is not required. However, we cannot assure you that the relevant PRC government agencies, including the MOFCOM and CSRC, would reach the same conclusion as our PRC Legal Advisor. If the MOFCOM, the CSRC or other PRC regulatory agencies subsequently determine that we need to obtain necessary approval for this [**REDACTED**], or if MOFCOM, CSRC or any other PRC government authorities promulgates interpretation or implementing rules before our [**REDACTED**] that would require any necessary governmental approvals for this [**REDACTED**], we may face sanctions by the MOFCOM, the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of proceeds from this [**REDACTED**] into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, and prospects, as well as the trading price of our Shares. The MOFCOM, the CSRC or other PRC regulatory agencies may also take actions requiring us to halt this [**REDACTED**] before settlement and delivery of the Shares [**REDACTED**] by this document.

Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

The SAT has issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options or grant of the restricted shares. Our PRC subsidiaries have obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay, or we fail to withhold, their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities.

Certain judgment obtained against us by our shareholders may not be enforceable.

We are an exempted company incorporated in the Cayman Islands, and substantially all of our current operations are conducted in China. In addition, a majority of our current Directors and officers are nationals and residents of China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or against these individuals in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. In addition, as there are no clear statutory and judicial interpretations or guidance on a PRC court's jurisdiction over cases brought under foreign securities laws, it may be difficult for you to bring an original action against us or our PRC resident officers and Directors in a PRC court based on the liability provisions of non-PRC securities laws. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our Directors and officers.

RISKS RELATING TO THE [REDACTED]

An active trading market in our Shares may not develop, which could have a material adverse effect on the Share price and your ability to sell your Shares.

Prior to completion of the [**REDACTED**], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [**REDACTED**]. The [**REDACTED**] is the result of negotiations among our Company and the [**REDACTED**] (for itself and on behalf of the [**REDACTED**]), which may not be indicative of the price at which our Shares will be traded following completion of the [**REDACTED**]. The market price of our Shares may drop below the [**REDACTED**] at any time after completion of the [**REDACTED**]. Moreover, each of our Controlling Shareholders and certain other existing Shareholders is expected to enter into to a six-month lock-up agreement, which will restrict these Shareholders from selling their Shares and therefore, reduce the available public float for our Shares during the lock-up period, subject to customary exceptions. As a result, the absence of any sale of Shares by such persons during the lock-up period may cause, or at least contribute to, limited liquidity in the market for our Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares.

The trading price of the Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility of the price of, and trading volumes for our Shares. A number of PRC-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their offerings. The trading performances of the securities of these companies at the time of, or after, their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong, and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

You will experience immediate dilution and may experience further dilution in the future.

As the [**REDACTED**] of our Shares is higher than the consolidated tangible assets less liabilites of the Group attributable to owners of the Company per Share immediately prior to the [**REDACTED**], purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution in pro forma adjusted consolidated tangible assets less liabilites of the Group attributable to owners of the Company. Our existing Shareholders will receive an increase in the value of pro forma adjusted consolidated tangible asset less liabilites of the Group attributable to owners of the Company per Share of their shares. In addition, holders of our Shares may experience further dilution of their interest if we issue additional shares in the future to raise additional capital.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers, Controlling Shareholders and Pre-[REDACTED] Investors, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers, Controlling Shareholders and Pre-[**REDACTED**] Investors, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our Controlling Shareholders and certain Shares held by the Pre-[**REDACTED**] Investors are subject to certain lock-up periods. For further details, see "History, Reorganization and Corporate Structure – Pre-[**REDACTED**] Investments." While we are currently not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

We cannot assure you that we will declare and distribute any amount of dividends in the future.

A decision to declare or pay dividends and the amount of such dividends will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and other conditions and factors that our Directors deem relevant and will be subject to approval of our Shareholders. See "Financial Information – Dividends" for details.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. Our future payments of dividends will be at the absolute discretion of our Board and subject to Shareholders' approval. As a result, there can be no assurances whether, when and in what manner we will pay dividends in the future.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. Our corporate affairs are governed by the Articles of Association, the Companies Act and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedents in existence in Hong Kong. This means that the remedies available to our minority Shareholders may be different from those available under the laws of Hong Kong or other jurisdictions. Minority Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, Directors or majority Shareholders than they would as shareholders of a Hong Kong company or company incorporated in other jurisdictions. A summary of the constitution of our Company and the Cayman Islands Company Law is set out in Appendix III to this document.

We cannot assure you of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various official government sources contained in this document.

This document, particularly the sections headed "Business" and "Industry Overview," contains information and statistics derived from official government sources relating to the DLM and targeted markets. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information from official government sources has not been independently verified by us, the [**REDACTED**], the [**REDACTED**], the Sole Sponsor, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**] or any other party (other than CIC) involved in the [**REDACTED**], and no representation is given as to its accuracy. You should consider carefully the importance placed on such information or statistics.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

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Since there may be a gap of several Business Days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The [**REDACTED**] of our Shares is expected to be determined on the [**REDACTED**]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the [**REDACTED**]. As a result, investors cannot sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the [**REDACTED**] and the time trading begins.